1 August 2017

Meggitt PLC
2017 Interim results

Solid H1 performance; well positioned for the full year

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces unaudited interim results for the six months ended 30 June 2017.

Group headlines

£m		H1 2017	H1 2016[1]	% change	
				Reported	Organic[2]
Orders		**966.8**	911.8	+6	-2
Revenue		**968.1**	882.9	+10	0
Underlying[3]					
	EBITDA[4]	**228.4**	213.1	+7	-2
	Operating profit	**174.3**	163.3	+7	-2
	Profit before tax	**157.4**	152.0	+4	-6
	Earnings per share (p)	**15.5**	15.4	+1	
Statutory					
	Operating profit	**208.2**	55.4	+276	
	Profit before tax	**185.5**	39.0	+376	
	Earnings per share (p)	**20.7**	4.8	+331	
Free cash flow		**18.5**	-32.7	N/A	
Net debt		**1,122.1**	1,276.7	-12	
Dividend (p)		**5.05**	4.80	+5	

- Full-year guidance and medium term targets for margin and cash reconfirmed.
- Reported revenue growth of 10% benefitted from currency movements. Flat organic revenue reflects 2% growth in civil aerospace and flat military revenue, partially offset by the expected, continued weakness in energy (down 14%).
- Underlying operating profit growth of 7% includes currency benefits. Underlying operating margin reduced, as expected, to 18.0% reflecting primarily the stronger second half weighting of revenue and phasing of expensed research and development costs.
- Strong momentum on key strategic initiatives:
  - Good progress on the Meggitt Production System ('MPS'), particularly in respect of inventory where a focus at our more advanced sites has started to yield benefit.
  - Further improvement at Customer Services & Support ('CSS'), where we have acquired additional MRO capabilities and secured long term agreements to support airline customers.
  - Contract wins, including award of the braking system for the A321neo and additional content on both 777X and C919.
  - Continued focus on actively managing the portfolio, having completed the sale of three non-core industrial businesses[5] to Amphenol Corp.
  - Manufacturing footprint reduced to 48 sites following closure of the Corona site and disposals.
- Strong free cash in-flow of £19m (June 2016: £33m outflow).
- Healthy balance sheet with net debt:EBITDA on a covenant basis of 2.2x (June 2016: 2.6x).
- Interim dividend up 5% to 5.05p.

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[1] Prior period statutory figures have been restated following the finalisation of the fair values of the advanced composites businesses in H2 2016 as set out in note 26.
[2] Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
[3] Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 4 and 9.
[4] Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.
[5] Meggitt Maryland, Piezo Technologies and Piher generated revenues of £51m and underlying operating profit of £5m for the year ended 31 December 2016.

Stephen Young, Chief Executive, commented:

"First half results were in line with our expectations, with reported revenue growth helped by favourable currency movements and organic growth in our civil aerospace business, partly offset by lower energy revenues. We continue to expect stronger growth in the second half with a corresponding improvement in margin. We reiterate our guidance of 2 to 4% organic revenue growth and our operating margin target of 19.1 to 19.4% for the full-year.

Over the medium term, we are set to benefit from improving conditions in many of our end markets and the strategic investments we have made in the business over the past five years.

We continue to focus on accelerating progress on our key operational initiatives, which we expect will deliver a 200 to 250 basis point net improvement in operating margin[6] and £200m incremental cash from increased inventory turns by 2021.

Reflecting our continuing confidence in the prospects for the Group, the interim dividend has been increased by 5% to 5.05p."

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Analyst presentation
There will be a presentation for analysts today at 11.00am GMT in London. There will be a live webcast on the Meggitt website, http://www.meggittinvestors.com, where copies of the presentation will be available afterwards.

Cautionary Statement
This Results Announcement contains forward looking statements with respect to the financial condition, results of operations and businesses of Meggitt PLC and its strategy, plans and objectives. These statements are made in good faith based on the information available at the time this announcement was approved. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement and which could cause actual results to differ materially from those currently anticipated. Meggitt does not intend to update these forward-looking statements. Nothing in this document should be regarded as a profit forecast. This report is intended solely to provide information to shareholders and neither the Company nor its directors accept liability to any other person, save as would arise under English law.

[6] Current GAAP basis.

GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for aerospace, defence and energy markets. We have a broad-based and well balanced portfolio, with equipment on circa 68,000 aircraft and many ground vehicles, training installations and energy applications worldwide. This significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades.

Strong customer relationships and high levels of embedded intellectual property span a broad range of products and capabilities which have enabled us to win excellent positions on new platforms, typically on a sole-source basis. We have increased our content on the new civil aerospace programmes which have recently, or are due to, enter service by up to 250% compared to their predecessors. These market share gains combined with anticipated growth in large jet deliveries of 4% per annum underpin our medium term growth expectations.

Significant increases in content on new aircraft have driven our research and development (‘R&D’) costs and new product introduction (‘NPI’) costs to record levels but we are now past the peak of R&D spend and will soon pass the peak of NPI costs. This represents a major refresh of our in-service portfolio and will drive revenues for decades ahead. Having passed the development peak we are now increasingly focused on operational execution and the deployment of a series of initiatives that will enable us to improve underlying operating profit margin by 200 to 250 basis points and deliver an incremental £200m of cash from improved inventory turns by 2021.

The first of these initiatives is the Meggitt Production System (MPS), our single, global approach to continuous improvement which continues to make good progress. MPS was launched in 2013 with a view to creating a sustainable quality and delivery culture that drives competitive advantage beyond our technical expertise and enables the Group to deliver a higher rate of organic growth over the long term.

Now in its fourth year, four (of our 48) sites have entered the fourth, or bronze, stage of MPS where the focus turns to realising the financial benefits from improved productivity and better management of inventory. During the first half, a focus on inventory management at our more advanced MPS sites has started to yield some initial benefits, with inventory down £4m on an organic basis, compared to June 2016. By 2019, we expect over 50% of our sites to have reached the bronze stage or later and as a consequence we expect these benefits will accelerate thereafter.

Our Customer Services and Support (‘CSS’) organisation is now in its second full year of operations and continues to make excellent progress across a broad range of improvement initiatives. We are building scale in our regional spares distribution and repair hubs in Singapore; Simi Valley, California; Miami, Florida; and Coventry, UK. We have secured long term agreements to provide a range of component repair services to airlines including Air France, Vietjet and Emirates. In March 2017, we completed the acquisition of Elite Aerospace, a provider of maintenance, repair and overhaul (‘MRO’) services for thermal management components. The acquisition increases the repair capabilities at our Miami hub and further enhances the foundations from which we will accelerate aftermarket growth over the medium term.

We also continue to make good progress in extending our relationships with our principal original equipment (‘OE’) customers. During the first half, we have won more content on the Comac C919, Boeing 777X and Airbus A321neo aircraft. The award to provide an alternative braking system for the A321neo is a strategically significant contract for Meggitt. It enables us to further demonstrate our capability in the large jet market, after the entry into service of the Bombardier CSeries in 2016 equipped with our Ebrake® technology, the industry’s second fully electric braking system.

In June 2017, we completed the sale of Meggitt Maryland, Piezo Technologies and Piher to Amphenol Corp for £82m. The three businesses operated as standalone entities and provide a range of sensor and control technologies to customers in the industrial and automotive sectors where synergies with the rest of the Group are limited. The transaction is consistent with our strategy to focus on businesses of scale in attractive markets where our leading positions offer greater potential for growth and operational efficiencies.

Given the importance of preparing our factories for significant ramp-ups in production on key programmes, such as the Leap and PurePower engines, our focus for site rationalisation has been on small sites that are not involved in large civil aerospace programmes. During the first half, we have closed a site in Corona, California, exited three sites as a consequence of the business disposals and acquired, as part of the Elite Aerospace acquisition, an additional site located near our CSS hub in Miami. As a result, our manufacturing footprint has reduced to 48 sites from 51 at the end of 2016.

We have also announced that we are considering options to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence in the Midlands region, UK. Moving more work into larger, more capable sites is a key component of our site rationalisation strategy. It enables us to eliminate some of the fixed costs required to run individual aerospace sites but also provides better leverage of investment in world class infrastructure that will increase efficiency and improve customer service delivery.

Over the medium term, we anticipate further site rationalisation and remain on target to deliver a 20% reduction in total footprint by 2021 from our 2016 baseline.

HEADLINE FINANCIALS

Order intake grew by 6% with foreign currency movements more than offsetting an organic decline of 2%. Orders grew organically in all segments except military where strong intake in the six months to 30 June 2016 benefitted from a number of multi-year awards. Orders were particularly strong in energy, which was up 22%, benefitting from stabilisation of conditions in the Heatric business.

Reported Group revenue of £968.1m (2016: £882.9m) increased by 10% as analysed in the table below:

	£m	% impact
H1 2016 revenue	882.9	
Currency movements	96.0	10.9
Acquisitions and disposals	(10.4)	(1.2)
Organic growth	(0.4)	(0.0)
H1 2017 revenue	**968.1**	**9.7**

Currency movements reflect the weakness of sterling against our trading currencies, principally the US dollar. Acquisitions and disposals relate to the sale of Meggitt Target Systems (completed in December 2016) and Meggitt Maryland, Piezo Technologies and Piher (completed in June 2017), offset by the acquisition of Elite Aerospace in March 2017. Flat organic revenue is a result of 2% growth in civil aerospace and flat military revenues offset by a 14% decline in energy.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit was up 7% to £174.3m (2016: £163.3m), representing a margin of 18.0% (2016: 18.5%). The margin decline reflects primarily the greater second half weighting of revenues in 2017, the phasing of research and development expenditure and increased pension costs. These headwinds were partially offset by increased operational efficiencies, which included productivity improvements from MPS and reductions in net purchasing costs.

Underlying net finance costs increased to £16.9m (2016: £11.3m) reflecting both the stronger US dollar and the decision to hold a greater proportion of debt at fixed rates following the US private placement issue in July 2016.

Underlying profit before tax was £157.4m (2016: £152.0m). The underlying tax rate increased to 24% (2016: 22%). This reflects the strengthening of the US dollar increasing the proportion of Group profit from our US based businesses and the absence of any significant one-off items this period. Underlying earnings per share was 15.5p (2016: 15.4p).

On a statutory basis, operating profit for the period increased by 276% to £208.2m (2016 as restated: £55.4m) and profit before tax increased by 376% to £185.5m (2016 as restated: £39.0m). The increase in statutory profit (vs. underlying) includes the £52.1m gain on the disposal of the three non-core industrial businesses and a £35.5m gain (2016: £50.8m loss) on the non-cash marking to market of financial instruments. The financial instrument gain reflects the reversal of mark to market losses previously

recognised as foreign currency forward contracts matured in H1 and the strengthening of sterling since the year end on contracts yet to mature. Earnings per share increased by 331% to 20.7p (2016 as restated: 4.8p), driven by the rise in profit before tax. The adjustments between underlying and statutory profit are consistent with prior periods and are described in notes 4 and 9.

The interim dividend is increased by 5% to 5.05p (2016: 4.80p) reflecting our on-going confidence in the outlook for the Group and our commitment to a progressive dividend. This will be paid on 29 September 2017 to shareholders on the register on 8 September 2017.

Free cash flow increased to an inflow of £18.5m (2016: outflow of £32.7m), driven by improved inventory management which contributed to lower working capital requirements than in June 2016, and a significant reduction in capitalised research and development costs. This was partly offset by an increase in capital expenditure, related to continued investments in capacity to support growth.

The seasonal net cash outflow of £7.3m (2016: outflow of £106.7m) includes the £62.8m proceeds from the sale of Meggitt Maryland, Piezo Technologies and Piher net of the acquisition of Elite Aerospace together with the payment of the 2016 final dividend.

There are two main financial covenants in our financing agreements. The net debt:underlying EBITDA ratio, which must not exceed 3.5x, was at 2.2x at 30 June 2017 (June 2016: 2.6x) and interest cover, which must be not less than 3.0x, was 12.5x (June 2016: 18.6x). The Group has, therefore, significant headroom against both key covenant ratios, and net debt:underlying EBITDA is comfortably within our target range of 1.5x to 2.5x.

The Group has £378.8m of undrawn headroom against committed bank facilities, after taking account of surplus cash. This provides more than sufficient headroom to settle a $200m US private placement maturing in October 2017.

TRADING SUMMARY

	Revenue (£m)		*Growth (%)*	
	2017	2016	*Organic*	*Reported*
Civil OE	228.8	204.9	*1.1*	*11.7*
Civil AM	292.1	253.4	*2.4*	*15.3*
Total Civil	**520.9**	**458.3**	***1.8***	***13.7***
Military	314.9	293.9	*0.0*	*7.1*
Energy	62.8	65.2	*(14.1)*	*(3.7)*
Other	69.5	65.5	*(0.5)*	*6.1*
TOTAL	**968.1**	**882.9**	***(0.0)***	***9.7***

Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 22,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 18,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 54% of the Group total, is 56% aftermarket and 44% original equipment (OE).

Civil OE revenue grew 1.1% on an organic basis. Large jet OE, the most significant driver of our OE revenue, grew 8.2% driven principally by growth in Airbus A320neo, A350XWB, Boeing 737MAX and Bombardier CSeries. In the first quarter, large jet revenue growth was very strong at 13.1%, driven by our increased ship sets on the major new commercial platforms. In the second quarter, this slowed to 3.5% with delays on new aircraft deliveries impacting growth. Strong growth in large jet OE revenue for the half year was offset by business jet, general aviation and civil rotorcraft OE, which decreased by 20.0% on an organic basis during the period. Regional aircraft OE revenue was flat.

Civil aftermarket revenue grew organically by 2.4% with large jet growth of 4.0% and business jet growth of 13.6%, offset by a 6.9% decline in regional jet revenue. Within large jets, strong demand for spares on Airbus A320ceo and A380, Boeing 787 and 737 were supplemented by initial provisioning requirements on the Airbus A320neo, Boeing 737MAX and Bombardier CSeries. This growth was partially offset by falling

demand on other aircraft including the Boeing 707, 727, MD11, MD80 and MD90. Within regional jets, revenue growth on Embraer E170/175 and ATR-72 aircraft was more than offset by a decline in demand for spares on Bombardier CRJ and a number of other older regional aircraft.

Overall civil aerospace revenues increased by 1.8% on an organic basis.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years, which together with our increased shipset content on these platforms, gives us further confidence in the growth outlook for OE revenues. The rate of growth in large jet deliveries is expected to average 4% over the next five years. Deliveries of regional aircraft are expected to remain at current rates over the next five years. Deliveries of business jets are set to grow gradually to 2020, with the most potential coming at the smaller end of the market which was hardest hit during the last downturn.

Air traffic, measured in available seat kilometres (ASKs), is a key driver of demand for spares and repairs on large and regional aircraft. ASKs grew 6% globally in the five months to May 2017, above the long-term trend rate of 5%. Industry forecasts for air traffic continue to grow at or above the trend rate in the medium term. Regional jet utilisation (measured in terms of take offs and landings) grew by 2% in the six months to June 2017 and with strong positions as the provider of braking systems on the larger regional aircraft (principally the Embraer E-Jet and Bombardier CRJ) we would expect to outperform the market over the medium term. Business jet utilisation in the US and Europe also grew by 2% during the five months to May 2017 and with our higher value content and growing market share in braking systems, we should continue to drive above market revenue growth over the medium term.

Military

Military business accounted for 32% of Group revenues in 2017. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers accounted for 69% of military revenue, with 23% to European customers and 8% to the rest of the world.

Military revenue was flat on an organic basis, with the expected challenging first quarter of the year driven by significant uncertainty over the duration of the first Continuing Resolution under the new US administration. Growth returned in the second quarter, alongside the agreement of the 2017 DoD budget in May, with revenue up 4%. We are yet to see material increases in outlays reported by the DoD which supports our expectation that growth will be weighted towards the second half of the year, as cash from the increased budget is spent.

The long term outlook for defence expenditure in the US, our single most important military market, is more positive than it has been in recent years. Military budgets are forecast to grow by at least 4% per annum and there remains significant opportunity for retrofit and reset activity – a key campaign pledge from President Trump and work which Meggitt is well equipped to win.

Energy and other

Energy and other revenues (14% of Group total) come from a variety of end markets of which the single most significant is energy (7% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market. Other markets (7% of Group total) include the automotive, industrial, test, consumer goods and medical sectors. On a pro-forma basis, the disposals of Meggitt Maryland, Piezo Technologies and Piher would have reduced our exposure to energy and other industrial markets by £25m (reducing total Group revenue in these end markets to 12%).

As expected, energy revenue declined by 14% on an organic basis, including a 45% decline at Heatric (our printed circuit heat exchanger business) compared to the first half in 2016, when it completed the final units of the large Petrobras floating production, storage and offloading ('FPSO') contract. Heatric is now seeing an up-tick in small orders and, we believe, has passed the low point in the cycle. Organic revenues in power generation segments were flat in the first half, driven by steady demand for gas turbines where we have good positions with customers including Siemens, GE and Solar Turbines based on strong aero-derivative technology positions.

While near term the market remains uncertain, the long-term growth expectations for our energy businesses, and particularly Heatric, remain good. We have differentiated technology which plays a critical role in the extraction of deep-water offshore gas reserves and good opportunity for use in adjacent markets. The balance of our energy businesses will continue to benefit from synergistic relationships across business divisions and the long term demand for energy, particularly in emerging markets which drive growth of the global demand for industrial gas turbines of circa 3% per annum.

OPERATIONAL PERFORMANCE

The financial performance of the individual divisions is summarised in the table below:

Revenue (£m)				Division	Underlying Operating Profit (£m)			
2017	2016[7]	% Growth			2017	2016[7]	% Growth	
		Reported	Organic				Reported	Organic
183.2	175.9	+4	-6	Aircraft Braking Systems	59.9	59.4	+1	-7
240.5	201.4	+19	+5	Control Systems	55.1	48.4	+14	0
165.4	146.3	+13	+3	Polymers & Composites	20.3	16.1	+26	+20
267.2	244.9	+9	-2	Sensing Systems	36.5	36.1	+1	-12
111.8	114.4	-2	+2	Equipment Group	2.5	3.3	-24	n/a
968.1	**882.9**	**+10**	**0**	**Total Group**	**174.3**	**163.3**	**+7**	**-2**

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 35,000 in-service aircraft. It continues to develop innovative technology for new programmes enabling the business to retain its leading position in its target markets, underscored by the strong market share gains in recent years, notably on super mid-size and long range business jets. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 19% of Group revenue, generating 90% of its revenue from the aftermarket and 10% from OE sales.

MABS' civil revenue declined by 7% on an organic basis, with declining revenue in large jet and regional jet aftermarket only partially offset by 7% growth in business jet aftermarket. In large jets, lower demand for older aircraft such as the Boeing 707, 727, MD11, MD80 and MD90 was partially offset by an increase in initial provisioning on CSeries. In regional jets, a decline in revenue on Bombardier CRJ and older regional aircraft brakes were the key driver of an overall 8% decline in organic revenues.

MABS' military revenue declined by 3% on an organic basis, with growth in demand for brakes on the Hawk and F-35 more than offset by lower revenue from Typhoon.

Operating margins declined from 33.8% to 32.7%, driven by lower demand for brakes on older large and regional jet aircraft which are typically high margin spare parts.

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines, and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 25% of Group revenue, generating 53% of its revenue from the aftermarket and 47% from OE.

MCS revenue was up by 5% on an organic basis with 7% growth in civil aerospace and 6% growth in energy, partially offset by a 2% decline in military.

In civil aerospace, healthy growth in large jet OE was driven by shipset growth on major new civil programmes including the Airbus A320neo, A350XWB and Boeing 737MAX, together with continued healthy demand on the Boeing 787 and Airbus A320ceo. This was partly offset by a decline in OE revenue on Boeing 737NG, 777 and Airbus A319ceo. Aftermarket growth was also strong in large jets, where

[7] Prior period figures for Control Systems and Equipment Group have been restated to reflect a transfer of activities following the closure of MCS operations in Corona.

demand for spare parts on Boeing 787 and Airbus A380 were further enhanced by initial provisioning on the Airbus A320neo.

In military, MCS OE revenues grew strongly with good demand for missile system components and both fighter jets and transport aircraft. This was more than offset by declining aftermarket revenues driven by lower demand for valves on F-16 and F/A-18 programmes and a non-recurring, one-off contract for naval safety systems during the same period in 2016. In energy, revenues were up 6% driven by good growth in demand for industrial gas turbines and safety systems for the energy sector.

Operating margins decreased from 24.0% to 22.9% driven by unfavourable revenue mix, given the strong growth of civil OE revenues in the period.

Meggitt Polymers & Composites (MPC) supplies a range of fuel systems, complex composite assemblies and seals packages for civil and military platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks and is the leading independent provider of high temperature engine composites. MPC represents 17% of Group revenue and generates 67% of its revenue from OE and 33% from the aftermarket.

MPC revenue increased by 3% on an organic basis with very strong civil revenues partly offset by a 9% decline in military. Within civil, organic revenue growth of 20% reflects strong demand for inflight connectivity radomes, increased adoption of composite components on major new engine programmes, and the growing polymer seals content we have secured, particularly on Boeing platforms.

In military, organic aftermarket growth of 5% driven by good demand for F/A-18, F-35 and KC-135, was more than offset by declining OE revenues which were down by 18%. Lower volumes on fighter jets (most notably Typhoon), certain rotorcraft programmes and munitions systems all contributed to the fall in revenue, offset partly by greater demand for Black Hawk and V-22 Osprey.

Operating margins increased from 11.0% to 12.3% driven by favourable mix and the accelerated growth of the higher margin composites business.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow as well as power storage, conversion and distribution systems and avionics suites for aerospace applications. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with MABS, it has a number of civil aerospace tyre pressure monitoring systems already in service and further systems under development, having secured positions for this technology on 10 aircraft platforms. MSS represents 28% of Group revenue and generated 73% of its revenue from OE and 27% from the aftermarket.

MSS revenue declined 2% on an organic basis, with declining revenues in each of its end markets. In civil aerospace, revenues declined by 2% driven by continued softness in business jet OE which was only partially offset by healthy growth in all aftermarket segments. Military revenue declined by 1% on an organic basis, driven by lower OE revenues across a range fighter jets, partially offset by good growth in aftermarket. Within energy and other markets (including test, measurement and medical), MSS revenues decreased organically by 2%.

Operating margins decreased from 14.7% to 13.7% reflecting lower volumes across the division. With no immediate recovery anticipated in some of its businesses in the near term, actions have been initiated to realign the MSS cost base appropriately.

Meggitt Equipment Group (MEG) comprises principally our non-engine actuation, dedicated military businesses and Heatric. The division represents 11% of Group revenue and generates 79% of its revenue from OE and 21% from the aftermarket.

MEG revenue increased by 2% on an organic basis, with strong growth in military offsetting the expected decline in the Heatric business. Military revenue grew by 16% on an organic basis, reflecting strong growth in the training business, following the successful certification of the 'system of record' contracts for small arms training for both the US Army and US Marine Corps. Energy revenues at Heatric, in contrast, declined by 45% during the half year, given the tough comparator in 2016, when the business had completed the final units of a $100m contract to provide Petrobras with over 200 heat exchangers for floating production, storage and offloading ('FPSO') vessels.

Operating margins decreased from 2.9% to 2.2% driven by margin dilution from the disposal of Meggitt Target Systems in December 2016 and the weakness in Heatric, which made a loss in the six months to 30 June 2017.

INVESTING FOR THE FUTURE

£m	H1 2017	H1 2016	*% Change*	
			Reported	*Organic*
Total research and development (R&D)	75.9	78.8	*-4*	*-12*
Less: Customer funded	(15.1)	(13.6)	*+11*	*0*
Less: Capitalised	(28.3)	(37.4)	*-24*	*-32*
Add: Amortisation / Impairment	8.1	6.7	*+21*	*+9*
Charge to net operating costs	40.6	34.5	*+18*	*+11*
Programme participation costs	31.1	26.9	*+16*	*+5*
Capital expenditure	33.4	29.3	*+14*	*+4*

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in the first half reduced to £75.9m and was 7.8% of revenue (2016: £78.8m, 8.9%), of which 20% (2016: 17%) was funded by customers. The charge to net operating costs, including amortisation and impairment, increased by 18% (11% on an organic basis) to £40.6m (2016: £34.5m), due to increased amortisation and phasing differences within the period between capitalised and expensed programmes.

Reduced spend on R&D reflects the progress made on development programmes for major new aircraft platforms including the A320neo and CSeries, which entered service in 2016, and the 737MAX, which entered service in 2017. As more programmes pass key milestones over the next few years, we expect R&D to reduce further as a percentage of revenue. The new product introduction (NPI) expenditure associated with these platforms will peak in 2018. This reflects the increased content we have secured on a wide range of new platforms, which is good for future revenues, but the cost of introducing record numbers of new parts impacts profitability in the short term. We continue to expect growth in expensed R&D relating to our successful applied research and technology (AR&T) programmes, which will develop the next generation products and manufacturing technologies required to enable future aircraft programmes. Investment in retrofit, modification and upgrades will also continue to grow as we target more growth from mid-life upgrades, capitalising on the increased market and product performance knowledge garnered through our CSS organisation.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 5% organically. This reflects growth in new platforms where we have strong positions, particularly the Bombardier CSeries and Gulfstream G650. Growth is expected to continue into the second half, and well beyond, as deliveries of aircraft equipped with our wheels and brakes increase further, which in turn will drive aftermarket revenue stretching out for decades.

Capital expenditure on property, plant and equipment and intangible assets was £33.4m (2016: £29.3m). This is principally driven by continued investment to build capacity and support growth. Capital expenditure will increase further in the second half, as we accelerate plans to consolidate the Group's manufacturing footprint and make further investments in critical IT infrastructure.

FOREIGN EXCHANGE

The weakening of Sterling against all of the Group's major currencies significantly benefitted our reported results for the period.

Translation of results from overseas businesses increased Group revenue by £82.0m and added £13.7m to underlying profit before tax (PBT) in 2017. The sensitivity of full-year revenue and underlying PBT to future exchange rate translation movements, when compared to the 2017 H1 average rates, is shown in the table below:

	2017 H1 average rate	Revenue £'m	Underlying PBT £'m
Impact of 10 cent movement			
US Dollar	1.27	93.0	15.0
Swiss Franc	1.25	10.0	2.0
Euro	1.16	11.0	2.0

Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, increased revenue by £14.0m and underlying PBT by £2.5m in 2017. We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place[8] %	Average transaction Rates[9]
2017		
US Dollar/Sterling	88	1.47
US Dollar/Swiss Franc	99	1.06
US Dollar/Euro	100	1.18
2018 – 2022 inclusive		
US Dollar/Sterling	56	1.38
US Dollar/Swiss Franc	22	1.13
US Dollar/Euro	46	1.22

Taking translation and transaction benefit into account, 2017 reported revenue increased by £96.0m and underlying PBT increased by £16.2m.

RETIREMENT BENEFIT SCHEMES

Scheme deficits reduced in the period from £414.7m (at 31 December 2016) to £369.3m. A strong performance from scheme assets, together with deficit reduction payments, more than offset the impact of a further fall in yields on AA corporate bonds used to discount UK scheme liabilities. The low bond yields as at 31 December 2016 also contributed to an increase in our pension cost for the period of £1.9m.

The Group made deficit reduction payments in the first half of £14.0m (2016: £11.1m). In the UK, the next triennial valuation is in 2018 with any impact on cash contributions not expected until 2019. In the US, the level of deficit funding is principally driven by regulation and payments are anticipated to increase gradually over the next five years, commencing in the second half of 2017.

GROUP OUTLOOK

The outlook for our civil markets is encouraging. Growth in deliveries of large jets is expected to continue, and the increased shipset values we enjoy on the latest generation of large jets support organic civil OE revenue growth over the medium term ahead of overall market growth. In 2017, we continue to expect civil OE revenues to grow organically, but given continued challenges in business jet, general aviation and civil rotorcraft OE and some delays on major new large jet programmes, we now expect organic growth in civil OE of between 4 and 6% (prior guidance: 6 to 8%).

Available seat kilometres, an important driver of our large and regional jet aftermarket, continue to grow

[8] Based on forecast transaction exposures.
[9] Hedging in place with unhedged exposures based on exchange rates at 30 June 2017.

above the long-term trend of 5% per annum. This, combined with the benefit of our new CSS organisation and expanded content on new aircraft, means that we should outgrow the market for civil spares in the medium term. In 2017, we continue to expect organic civil aftermarket revenue growth of 4 to 6%.

In military markets the potential for growth over the medium term is strong, with the US Dept for Defense forecast to grow total expenditure by 4% and by 7% in its procurement and research, development, test and evaluation accounts, which are of most relevance to our business. Our strong technology offering and broad platform exposure should enable us to outgrow the market overall. As expected, growth was curtailed in the first quarter due to a period of uncertainty prior to the agreement of the first defense budget under a new administration in the US. This was eventually concluded in May. Revenue growth of 4% in the second quarter supports an expectation that organic revenue will grow by 2 to 4% in 2017 (prior guidance: 1 to 3%).

In energy, our revenue growth in the first half remained challenged by a comparatively stronger period at Heatric during 2016, when the business had completed the final units in support of the large Petrobras contract. Looking forward, easier comparators at Heatric and improved order flow, together with more benign conditions in the power generation market, will drive improved performance in the second half. As a result, we continue to expect an overall revenue decline for the full-year of between 5 to 10%.

On the basis of the above, we continue to expect 2 to 4% Group organic revenue growth in 2017 (i.e. after excluding currency movements, the divestments of Meggitt Target Systems, Meggitt Maryland, Piezo Technologies and Piher from 2016 base revenue, and the acquisition of Elite Aerospace).

The greater second half weighting of revenues in 2017 will lead to improved margins in the remainder of the year and is consistent with our target for operating margin to be flat to up 30 basis points in 2017.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 £m**	Six months ended 30 June 2016 Restated £m
Revenue	3	**968.1**	882.9
Cost of sales		**(586.9)**	(551.7)
Gross profit		**381.2**	331.2
Net operating costs		**(173.0)**	(275.8)
Operating profit [1]		**208.2**	55.4
Finance income		**0.7**	0.9
Finance costs		**(23.4)**	(17.3)
Net finance costs	7	**(22.7)**	(16.4)
Profit before tax [2]		**185.5**	39.0
Tax	8	**(24.9)**	(2.0)
Profit for the period attributable to equity owners of the Company		**160.6**	37.0
Earnings per share:			
Basic [3]	9	**20.7p**	4.8p
Diluted [4]	9	**20.4p**	4.7p

1	Underlying operating profit	3 & 4	**174.3**	163.3
2	Underlying profit before tax	4	**157.4**	152.0
3	Underlying basic earnings per share	9	**15.5p**	15.4p
4	Underlying diluted earnings per share	9	**15.2p**	15.1p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Note	**Six months ended 30 June 2017 £m**	Six months ended 30 June 2016 Restated £m
Profit for the period attributable to equity owners of the Company		**160.6**	37.0
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements	23	**(89.9)**	177.9
Cash flow hedge movements	23	**(0.1)**	(1.3)
Tax effect		**-**	0.3
		(90.0)	176.9
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		**31.4**	(74.7)
Tax effect		**(5.7)**	18.0
		25.7	(56.7)
Other comprehensive (expense)/income for the period		**(64.3)**	120.2
Total comprehensive income for the period attributable to equity owners of the Company		**96.3**	157.2

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET
As at 30 June 2017

	Notes	**30 June 2017 £m**	31 December 2016 £m
Non-current assets			
Goodwill	12	**2,012.7**	2,095.7
Development costs	12	**534.7**	533.5
Programme participation costs	12	**332.9**	333.5
Other intangible assets	12	**724.3**	817.6
Property, plant and equipment	13	**323.9**	336.9
Investments		**14.1**	14.8
Trade and other receivables		**47.4**	58.4
Derivative financial instruments	15	**27.0**	21.8
Deferred tax assets		**15.8**	15.9
		4,032.8	4,228.1
Current assets			
Inventories		**469.7**	468.5
Trade and other receivables		**406.7**	434.5
Derivative financial instruments	15	**3.8**	4.2
Current tax recoverable		**4.2**	4.4
Cash and cash equivalents		**96.6**	173.8
		981.0	1,085.4
Total assets	3	**5,013.8**	5,313.5
Current liabilities			
Trade and other payables		**(391.7)**	(464.0)
Derivative financial instruments	15	**(26.1)**	(31.2)
Current tax liabilities		**(43.7)**	(35.6)
Obligations under finance leases		**-**	(0.1)
Bank and other borrowings	14 & 15	**(200.6)**	(175.7)
Provisions	16	**(54.5)**	(53.6)
		(716.6)	(760.2)
Net current assets		**264.4**	325.2
Non-current liabilities			
Trade and other payables		**(4.5)**	(5.0)
Derivative financial instruments	15	**(24.8)**	(45.7)
Deferred tax liabilities		**(308.8)**	(322.6)
Obligations under finance leases		**(6.2)**	(6.5)
Bank and other borrowings	14 & 15	**(1,011.9)**	(1,170.6)
Provisions	16	**(103.1)**	(131.8)
Retirement benefit obligations	17	**(369.3)**	(414.7)
		(1,828.6)	(2,096.9)
Total liabilities		**(2,545.2)**	(2,857.1)
Net assets		**2,468.6**	2,456.4
Equity			
Share capital		**38.8**	38.8
Share premium		**1,220.0**	1,219.8
Other reserves		**15.7**	15.7
Hedging and translation reserves		**461.5**	551.5
Retained earnings		**732.6**	630.6
Total equity attributable to owners of the Company		**2,468.6**	2,456.4

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

	Equity attributable to owners of the Company					
	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2016	38.8	1,218.9	15.7	243.2	661.9	2,178.5
Profit for the period	-	-	-	-	37.0	37.0
Other comprehensive income/(expense)	-	-	-	176.9	(56.7)	120.2
Total comprehensive income/(expense) for the period	-	-	-	176.9	(19.7)	157.2
Employee share schemes:						
Value of services provided	-	-	-	-	3.3	3.3
Dividends (note 10)	-	-	-	-	(75.8)	(75.8)
At 30 June 2016 (Restated)	38.8	1,218.9	15.7	420.1	569.7	2,263.2
At 1 January 2017	**38.8**	**1,219.8**	**15.7**	**551.5**	**630.6**	**2,456.4**
Profit for the period	**-**	**-**	**-**	**-**	**160.6**	**160.6**
Other comprehensive (expense)/income	-	-	-	(90.0)	25.7	(64.3)
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(90.0)**	**186.3**	**96.3**
Employee share schemes:						
Value of services provided	-	-	-	-	4.5	4.5
Issue of equity share capital	-	0.2	-	-	(0.2)	-
Purchase of own shares for employee share schemes	-	-	-	-	(9.0)	(9.0)
Dividends (note 10)	-	-	-	-	(79.6)	(79.6)
At 30 June 2017	**38.8**	**1,220.0**	**15.7**	**461.5**	**732.6**	**2,468.6**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
For the six months ended 30 June 2017

	Notes	**Six months ended 30 June 2017 £m**	Six months ended 30 June 2016 £m
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		**147.1**	98.8
Cash outflow from business acquisition and disposal expenses		**(2.1)**	(1.1)
Cash outflow from exceptional operating items	5	**(8.0)**	(8.6)
Cash inflow from operations	21	**137.0**	89.1
Interest received		**0.1**	-
Interest paid		**(18.0)**	(15.6)
Tax paid		**(10.2)**	(14.7)
Cash inflow from operating activities		**108.9**	58.8
Business acquired	24	**(18.7)**	0.6
Businesses disposed	25	**83.6**	2.3
Capitalised development costs net of funding from customers	12	**(27.2)**	(36.4)
Capitalised programme participation costs		**(31.9)**	(26.9)
Purchase of intangible assets		**(6.5)**	(7.4)
Purchase of property, plant and equipment		**(28.4)**	(22.2)
Proceeds from disposal of property, plant and equipment		**1.5**	0.3
Cash outflow from investing activities		**(27.6)**	(89.7)
Dividends paid to Company's shareholders	10	**(79.6)**	(75.8)
Purchase of own shares for employee share schemes		**(9.0)**	-
Proceeds from borrowings	14	**36.3**	18.2
Debt issue costs		**-**	(1.0)
Repayments of borrowings	14	**(103.8)**	(1.1)
Cash outflow from financing activities		**(156.1)**	(59.7)
Net decrease in cash and cash equivalents		**(74.8)**	(90.6)
Cash and cash equivalents at start of the period		**173.8**	145.4
Exchange (losses)/gains on cash and cash equivalents		**(2.4)**	6.4
Cash and cash equivalents at end of the period		**96.6**	61.2

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2017

1. General information

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. It is the parent company of a Group whose principal activities during the period were the design and manufacture of high performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial, test and automotive.

The condensed consolidated financial statements presented in this document have not been audited or reviewed and do not constitute Group statutory accounts as defined in section 434 of the Companies Act 2006. Group statutory accounts for the year ended 31 December 2016 were approved by the Board of Directors on 27 February 2017 and delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union. They should be read in conjunction with the Group's financial statements for the year ended 31 December 2016. The directors have formed a judgement, at the time of approving the condensed consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of this interim management report. For this reason, the directors continue to adopt the going concern basis in preparing these condensed consolidated financial statements.

2. Accounting policies

The condensed consolidated financial statements have been prepared using the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2016.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2016 as disclosed on pages 112 to 114 of the Group's 2016 Annual Report.

The tax charge for the period has been calculated using the expected effective tax rates for each tax jurisdiction for the year ended 31 December 2017. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2017.

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these condensed consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when adopted except as disclosed below:

- IFRS 9, 'Financial instruments'. The Group is continuing to assess the full impact of IFRS 9 which becomes effective for accounting periods beginning on or after 1 January 2018. The main change is expected to relate to the way in which movements in the fair value of the Group's fixed rate borrowings, attributable to changes in the Group's own credit risk, are accounted for.

- IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The standard becomes effective for accounting periods beginning on or after 1 January 2018. The Group is continuing to assess the full impact of IFRS 15. The principal areas of the Group's existing accounting expected to be affected by the new standard are disclosed on page 110 of the Group's 2016 Annual Report.

  The Group's current intention is to apply the full retrospective approach upon adoption of IFRS 15. This approach requires all open contracts with customers that are presented in the 2018 financial statements to be transitioned under the new standard. Comparative financial information for 2017 will be restated together with a cumulative adjustment to equity as at 1 January 2017.

- IFRS 16, 'Leases'. The Group is continuing to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019. The main change is expected to relate to the recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. This standard is subject to endorsement by the European Union. Subject to such endorsement, it is the Group's current intention to early adopt this standard in its accounting periods beginning on or after 1 January 2018.

3. Segmental analysis

The Group manages its businesses under the key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group.

The key performance measure reviewed by the Chief Operating Decision Maker ('CODM') is underlying operating profit. The CODM has been identified as the Board.

The segmental analysis for the prior period has been restated to reflect the impact of the closure of the Group's Meggitt Control Systems operations in Corona, California and transfer of certain of its activities to an existing Meggitt Equipment operation in Irvine, California.

Six months ended 30 June 2017:

	Meggitt Aircraft Braking Systems	**Meggitt Control Systems**	**Meggitt Polymers & Composites**	**Meggitt Sensing Systems**	**Meggitt Equipment Group**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross segmental revenue	183.3	241.2	166.4	272.7	118.7	982.3
Inter-segment revenue	(0.1)	(0.7)	(1.0)	(5.5)	(6.9)	(14.2)
Revenue	**183.2**	**240.5**	**165.4**	**267.2**	**111.8**	**968.1**
Underlying operating profit *	**59.9**	**55.1**	**20.3**	**36.5**	**2.5**	**174.3**

Six months ended 30 June 2016 (Restated):

	Meggitt Aircraft Braking Systems	Meggitt Control Systems	Meggitt Polymers & Composites	Meggitt Sensing Systems	Meggitt Equipment Group	Total
	£m	£m	£m	£m	£m	£m
Gross segmental revenue	175.9	201.7	146.9	249.5	120.8	894.8
Inter-segment revenue	-	(0.3)	(0.6)	(4.6)	(6.4)	(11.9)
Revenue	175.9	201.4	146.3	244.9	114.4	882.9
Underlying operating profit *	59.4	48.4	16.1	36.1	3.3	163.3

* A detailed reconciliation of underlying operating profit to operating profit is shown in note 4.

Segment assets

	30 June 2017	31 December 2016 Restated
	£m	£m
Meggitt Aircraft Braking Systems	**810.6**	832.6
Meggitt Control Systems	**365.3**	357.8
Meggitt Polymers & Composites	**213.5**	230.0
Meggitt Sensing Systems	**457.3**	463.2
Meggitt Equipment Group	**163.8**	185.0
Total segmental trading assets	**2,010.5**	2,068.6
Centrally managed trading assets *	**180.3**	176.0
Goodwill (note 12)	**2,012.7**	2,095.7
Other intangible assets	**648.8**	738.3
Investments	**14.1**	14.8
Derivative financial instruments – non-current (note 15)	**27.0**	21.8
Deferred tax assets	**15.8**	15.9
Derivative financial instruments – current (note 15)	**3.8**	4.2
Current tax recoverable	**4.2**	4.4
Cash and cash equivalents	**96.6**	173.8
Total assets	**5,013.8**	5,313.5

* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

4. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. It excludes certain items as described below:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 Restated £m
Operating profit	**208.2**	55.4
Exceptional operating items (note 5)	**6.7**	7.6
Amounts arising on the acquisition, disposal and closure of businesses (note 25)	**(53.2)**	0.6
Amortisation of intangible assets acquired in business combinations (note 12)	**48.1**	44.6
Disposal of inventory revalued in business combinations	**-**	4.3
Financial instruments (note 6)	**(35.5)**	50.8
Adjustments to operating profit *	**(33.9)**	107.9
Underlying operating profit	**174.3**	163.3
Profit before tax	**185.5**	39.0
Adjustments to operating profit per above	**(33.9)**	107.9
Net interest expense on retirement benefit obligations (note 7)	**5.8**	5.1
Adjustments to profit before tax	**(28.1)**	113.0
Underlying profit before tax	**157.4**	152.0
Profit for the period	**160.6**	37.0
Adjustments to profit before tax per above	**(28.1)**	113.0
Tax effect of adjustments to profit before tax	**(12.9)**	(31.1)
Adjustments to profit for the period	**(41.0)**	81.9
Underlying profit for the period	**119.6**	118.9

* Of the adjustments to operating profit, £2.0m (2016: £3.1m) relating to exceptional operating items and £Nil (2016: £4.3m) relating to the disposal of inventory revalued in business combinations have been charged to cost of sales with the balance of £35.9m credited (2016: £100.5m charged) to net operating costs.

5. Exceptional operating items

Items which are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (note 4), are classified as exceptional operating items.

	Notes	**Income statement**		**Cash expenditure**	
		Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	**Six months ended 30 June 2017 £m**	Six months ended 30 June 2016 £m
Site consolidations	a	**4.0**	0.8	**5.3**	0.2
Integration of acquired businesses	b	**2.7**	1.7	**2.7**	1.7
Business restructuring costs		**-**	5.1	**-**	6.2
Raw material supply issue		**-**	-	**-**	0.5
Exceptional operating items		**6.7**	7.6	**8.0**	8.6

a. In 2017, this principally relates to the closure of the Group's control systems operations in Corona, California and transfer of its activities to two of the Group's other existing operations in California. In addition, it includes costs incurred exploring the potential to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence in the Midlands region, UK.

b. This principally relates to costs incurred in respect of the on-going integration of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively.

6. Financial instruments

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. The Group's underlying profit figures exclude amounts which would not have been recorded if hedge accounting had been applied.

Where interest rate derivatives do qualify to be hedge accounted, any difference between the movement in the fair value of derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit (note 4).

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Movement in the fair value of foreign currency forward contracts	**(47.8)**	28.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(2.5)**	2.1
Movement in the fair value of interest rate derivatives	**2.3**	(8.2)
Movement in the fair value of fixed rate borrowings (note 15)	**(1.7)**	7.7
Movement in the fair value of cross currency derivatives	**14.5**	12.3
Movement in the fair value of treasury lock derivative	**(0.3)**	8.8
Financial instruments – (gain)/loss	**(35.5)**	50.8

7. Net finance costs

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Unwinding of interest on other receivables	**0.6**	0.9
Other finance income	**0.1**	-
Finance income	**0.7**	0.9
Interest on bank borrowings	**1.3**	4.5
Interest on senior notes	**15.9**	6.2
Interest on obligations under finance leases	**0.6**	0.5
Unwinding of discount on provisions	**1.0**	1.2
Net interest expense on retirement benefit obligations (note 4)	**5.8**	5.1
Amortisation of debt issue costs	**0.4**	0.7
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(1.6)**	(0.9)
Finance costs	**23.4**	17.3
Net finance costs	**22.7**	16.4

8. Tax

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The Finance Act 2016, included legislation to further reduce the main rate of corporation tax in the UK to 17% from 1 April 2020. As these changes were substantively enacted in prior years, they have had no impact on the tax charge for the current period.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £160.6m (2016 as restated: £37.0m) by the weighted average number of shares in issue during the period of 774.1m (2016: 774.4m). The weighted average number of shares used excludes treasury shares and any shares bought by the Group and held during the period by an independently managed Employee Share Ownership Plan Trust. The weighted average number of treasury shares excluded was Nil shares (2016: 0.3m) and the weighted average number of own shares excluded was 1.6m shares (2016: 1.7m).

Underlying EPS is based on underlying profit for the period (note 4) and is reconciled to basic EPS below:

	Six months ended 30 June 2017	Six months ended 30 June 2016 Restated
	Pence	Pence
Basic EPS	**20.7**	4.8
Adjust for the effects of:		
Exceptional operating items	**0.7**	0.7
Amounts arising on the acquisition, disposal and closure of businesses	**(6.8)**	0.1
Amortisation of intangible assets acquired in business combinations	**4.0**	3.7
Disposal of inventory revalued in business combinations	**-**	0.3
Financial instruments	**(3.7)**	5.3
Net interest expense on retirement benefit obligations	**0.6**	0.5
Underlying basic EPS	**15.5**	15.4

Diluted EPS for the period is 20.4p (2016 as restated: 4.7p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group, this means assuming all share awards in issue are exercised. The weighted average number of shares used in the calculation of diluted EPS was 788.5m (2016: 786.5m).

Underlying diluted EPS for the period is 15.2p (2016: 15.1p). The calculation of underlying diluted EPS is based on underlying profit (note 4) and the same weighted average number of shares used in the calculation of diluted EPS.

10. Dividends

The directors have declared an interim dividend of 5.05p per ordinary share (2016: 4.80p) which will be paid on 29 September 2017 to shareholders on the register on 8 September 2017. As the dividend was approved by the directors after 30 June 2017, the dividend cost of £39.2m (2016: £37.2m) is not recorded as a liability at the balance sheet date. A dividend reinvestment plan will be available for shareholders who wish to take the dividend in the form of shares rather than cash and the last date for receipt of forms of election for the dividend reinvestment plan is 15 September 2017.

During the period, the final dividend of 10.30p per ordinary share in respect of the year ended 31 December 2016 was paid (2016: 9.80p final dividend in respect of the year ended 31 December 2015). The total cost of the final dividend was £79.6m (2016: £75.8m) and was paid in cash.

11. Related party transactions

During the period, the Group made sales to the joint venture of £1.9m (2016: £1.2m) and purchases from the joint venture of £0.2m (2016: £0.3m). Amounts due from the joint venture at the balance sheet date were £0.4m (2016: £1.5m). There were no amounts due to the joint venture at the balance sheet date (2016: £Nil).

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The remuneration of key management personnel of the Group, which is defined for 2017 as members of the Board and the Group Leadership Team, is set out below.

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Salaries and other short-term employee benefits	**3.4**	3.8
Retirement benefit expense	**0.1**	0.1
Share-based payment expense	**0.6**	0.5
Total	**4.1**	4.4

12. Intangible assets

	Goodwill £m	**Development costs £m**	**Programme participation costs £m**	**Other intangible assets £m**
At 1 January 2017	2,095.7	533.5	333.5	817.6
Exchange rate adjustments	(80.2)	(19.5)	(13.5)	(30.9)
Additions net of funding from customers *	-	27.2	31.1	5.7
Business acquired	17.7	-	-	-
Businesses disposed (note 25)	(20.5)	-	-	(12.7)
Interest capitalised (note 7)	-	1.6	-	-
Amortisation and impairment loss **	-	(8.1)	(18.2)	(55.4)
At 30 June 2017	**2,012.7**	**534.7**	**332.9**	**724.3**

* Additions to development costs are stated net of funding from customers of £1.1m (2016: £1.0m). Additions to programme participation costs comprise £29.4m (2016: £26.1m) in respect of free of charge/deeply discounted manufactured parts and £1.7m (2016: £0.8m) in respect of cash payments.

** Amortisation of other intangible assets includes £48.1m (2016 as restated: £44.6m) in respect of intangible assets acquired in business combinations and which has been excluded from underlying operating profit (note 4).

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. There have been no indications of impairment in the period. A full impairment review was conducted for the year ended 31 December 2016 and no impairment charge was required. The cumulative impairment charge recognised to date is £Nil (2016: £Nil).

13. Property, plant and equipment

	Land and buildings £m	**Plant, equipment and vehicles £m**	**Total £m**
At 1 January 2017	143.3	193.6	336.9
Exchange rate adjustments	(2.7)	(5.8)	(8.5)
Additions	3.1	23.3	26.4
Disposals	(0.4)	(2.6)	(3.0)
Business acquired	-	0.3	0.3
Businesses disposed (note 25)	(1.3)	(6.4)	(7.7)
Depreciation	(3.9)	(16.6)	(20.5)
At 30 June 2017	**138.1**	**185.8**	**323.9**

14. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2017	175.7	1,170.6	1,346.3
Exchange rate adjustments	(10.2)	(54.0)	(64.2)
Proceeds from borrowings	36.3	-	36.3
Repayments of borrowings	-	(103.8)	(103.8)
Acquired with businesses	0.7	-	0.7
Disposed with businesses (note 25)	(0.2)	(0.7)	(0.9)
Other non-cash movements	(1.7)	(0.2)	(1.9)
At 30 June 2017	**200.6**	**1,011.9**	**1,212.5**

Analysed as:

	30 June 2017 £m	31 December 2016 £m
Bank loans	**34.9**	0.3
Other loans	**165.7**	175.4
Total current	**200.6**	175.7
Bank loans	**226.7**	344.6
Other loans	**785.2**	826.0
Total non-current	**1,011.9**	1,170.6

15. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and the current element of floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

For other financial instruments, a comparison of book values and fair values is provided below:

	Book value		**Fair value**	
	30 June 2017 £m	31 December 2016 £m	**30 June 2017 £m**	31 December 2016 £m
Derivative financial instruments – non-current	**27.0**	21.8	**27.0**	21.8
Derivative financial instruments – current	**3.8**	4.2	**3.8**	4.2
Financial assets	**30.8**	26.0	**30.8**	26.0
Derivative financial instruments – current	**(26.1)**	(31.2)	**(26.1)**	(31.2)
Bank and other borrowings – current	**(200.6)**	(175.7)	**(201.1)**	(177.2)
Derivative financial instruments – non-current	**(24.8)**	(45.7)	**(24.8)**	(45.7)
Bank and other borrowings – non-current	**(1,011.9)**	(1,170.6)	**(1,011.8)**	(1,160.2)
Financial liabilities	**(1,263.4)**	(1,423.2)	**(1,263.8)**	(1,414.3)
Total	**(1,232.6)**	(1,397.2)	**(1,233.0)**	(1,388.3)

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. The fair value of cross currency derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and the contractual interest and forward exchange rates.

15. Financial Instruments – fair value measurement continued

The current and non-current portion of fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates and with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the current and non-current element of fixed rate bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the period.

Cumulative unrealised changes in fair value of the current and non-current portion of fixed rate bank and other borrowings, designated as fair value through profit and loss, arising from changes in credit risk are as follows:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Fair value at 1 January	**1.0**	3.3
(Loss)/gain recognised in net operating costs	**(1.0)**	1.3
Fair value at 30 June	**-**	4.6

The difference between fair value and contractual amount at maturity of the current and non-current portion of fixed rate bank and other borrowings, designated as fair value through profit and loss, is as follows:

	30 June 2017 £m	31 December 2016 £m
Fair value	**326.8**	344.3
Difference between fair value and contractual amount at maturity	**(18.9)**	(20.6)
Contractual amount payable at maturity	**307.9**	323.7

Changes in fair value of financial liabilities classified as level 3 in the hierarchy are as follows:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**344.3**	290.8
Exchange rate adjustments	**(15.9)**	27.8
(Gain)/loss recognised in net operating costs (note 6)	**(1.7)**	7.7
Loss recognised in net finance costs	**0.1**	0.2
At 30 June	**326.8**	326.5

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining fair value at 30 June 2017, would impact net operating costs by approximately £6.3m.

16. Provisions

	30 June 2017 £m	31 December 2016 £m
Environmental *	**106.1**	121.7
Onerous contracts	**25.3**	38.1
Warranty costs	**17.3**	17.8
Other	**8.9**	7.8
Total	**157.6**	185.4
Analysed as:		
Current	**54.5**	53.6
Non-current	**103.1**	131.8
Total	**157.6**	185.4

* Included within trade and other receivables is £58.7m (December 2016: £77.4m) in respect of amounts recoverable from insurers and other third parties. During the period, £15.8m (June 2016: £5.5m) was recovered.

During the period, expenditure of £19.4m (June 2016: £9.1m) was incurred, of which £11.0m (June 2016: £4.1m) related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £5.4m (June 2016: £5.5m) and the credit to the income statement in respect of the reversal of unused amounts was £7.6m (June 2016: £4.2m).

17. Retirement benefit obligations

	30 June 2017 £m	31 December 2016 £m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	**1,365.5**	1,367.2
Fair value of scheme assets	**(996.2)**	(952.5)
Total	**369.3**	414.7
Analysis of retirement benefit obligations:		
Pension schemes	**316.2**	360.2
Healthcare schemes	**53.1**	54.5
Total	**369.3**	414.7
Key financial assumptions:		
UK Scheme:		
Discount rate	**2.45%**	2.65%
Inflation rate	**3.10%**	3.30%
Salary increases	**4.10%**	4.30%
Current life expectancy – Male aged 65 (years)	**21.7 to 23.3**	21.7 to 23.2
Overseas Schemes: *		
Discount rate	**3.70%**	3.95%
Salary increases	**4.43%**	4.51%
Current life expectancy – Male aged 65 (years)	**20.2 to 20.8**	20.2 to 20.8

* Provided in respect of the most significant overseas schemes.

Cash contributions paid during the period were £22.8m (2016: £19.1m) including deficit reduction payments of £14.0m (2016: £11.1m).

18. Issued share capital

	30 June 2017 No. m	31 December 2016 No. m
Allotted and fully paid	**775.8**	775.7

The increase in the number of shares during the period relates to shares issued on the exercise of Sharesave awards.

19. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The directors do not believe that the effect of giving these guarantees will have a material adverse effect upon the Group's financial position.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

20. Capital commitments

	30 June 2017 £m	31 December 2016 £m
Contracted for but not incurred:		
Intangible assets	**0.7**	1.3
Property, plant and equipment	**15.0**	13.5
Total	**15.7**	14.8

21. Cash inflow from operations

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 Restated £m
Profit for the period	**160.6**	37.0
Adjustments for:		
Finance income (note 7)	**(0.7)**	(0.9)
Finance costs (note 7)	**23.4**	17.3
Tax	**24.9**	2.0
Depreciation (note 13)	**20.5**	19.2
Amortisation and impairment loss (note 12)	**81.7**	75.2
Loss on disposal of property, plant and equipment	**1.5**	0.8
Gain on disposal of businesses (note 4)	**(53.2)**	0.6
Financial instruments – (gain)/loss (note 6)	**(35.5)**	50.8
Share of profit after tax of joint venture not distributed to the Group	**-**	(0.3)
Retirement benefit obligation deficit payments (note 17)	**(14.0)**	(11.1)
Share-based payment expense	**2.0**	1.7
Changes in working capital	**(74.2)**	(103.2)
Cash inflow from operations	**137.0**	89.1

22. Movements in net debt

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
At 1 January	**1,179.1**	1,053.1
Free cash (inflow)/outflow	**(18.5)**	32.7
Business acquired	**18.7**	(0.6)
Business acquisition expenses	**0.1**	1.1
Businesses disposed (note 25)	**(83.6)**	(2.3)
Business disposal expenses	**2.0**	-
Dividends paid to Company's shareholders (note 10)	**79.6**	75.8
Purchase of own shares for employee share schemes	**9.0**	-
Net cash generated – outflow	**7.3**	106.7
Debt acquired with business	**0.7**	-
Debt disposed with businesses (note 25)	**(0.9)**	-
Exchange rate adjustments	**(62.2)**	107.8
Other non-cash movements	**(1.9)**	9.1
At 30 June	**1,122.1**	1,276.7
Analysed as:		
Bank and other borrowings – current (note 14)	**200.6**	15.3
Bank and other borrowings – non-current (note 14)	**1,011.9**	1,316.5
Obligations under finance leases – non-current	**6.2**	6.1
Cash and cash equivalents	**(96.6)**	(61.2)
Total	**1,122.1**	1,276.7

23. Components of other comprehensive income

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 Restated £m
Arising in the period	**(76.4)**	177.9
Transferred to income statement (note 25)	**(13.5)**	-
Currency translation movements – (loss)/gain	**(89.9)**	177.9
Movement in fair value	**(0.1)**	(1.6)
Transferred to income statement	**-**	0.3
Cash flow hedge movements – (loss)	**(0.1)**	(1.3)

24. Business combinations

On 28 March 2017, the Group acquired 100% of the voting rights of Elite Aerospace, Inc. ('Elite') for an initial consideration of USD 24.2m settled in cash. Further consideration of up to USD 0.8m may be payable, dependent on future events. Elite is a provider of maintenance, repair and overhaul services for thermal management components. The acquisition increases the repair capabilities at the Group's Miami hub and further enhances the foundations from which the Group will accelerate aftermarket growth over the medium term.

The difference between the book value of acquired net assets and consideration has been provisionally recognised as goodwill. During the second half of 2017, the Group expects to finalise the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed, with any corresponding adjustment necessary being made to the value of goodwill recognised.

25. Business disposals

On 16 June 2017, the Group collectively disposed of 100% of the ordinary shares of Piezotech LLC, Meggitt (Maryland) Inc, Piher Sensors & Controls SA and Piher International GmbH for an initial consideration of USD 105.0m which is subject to a customary adjustment for the working capital in the businesses at the date of disposal. The businesses operated as standalone entities providing a range of sensor and control technologies to customers in the industrial and automotive sectors where synergies with the rest of the Group were limited. The businesses were not a major line of business or geographical area of operation of the Group.

The net assets of businesses disposed at the date of disposal were as follows:

	Total £m
Goodwill (note 12)	20.5
Other intangible assets (note 12)	12.7
Property, plant and equipment (note 13)	7.7
Inventories	8.7
Trade and other receivables – current	9.1
Cash and cash equivalents	3.2
Trade and other payables – current	(8.9)
Current tax liabilities	(0.4)
Bank and other borrowings – current (note 14)	(0.2)
Provisions - current	(0.3)
Deferred tax liabilities	(7.5)
Bank and other borrowings – non-current (note 14)	(0.7)
Net assets	**43.9**
Currency translation gain transferred from equity (note 23)	(13.5)
Business disposal expenses	2.9
Gain on disposal	52.1
Total consideration received in cash	**85.4**

Cash inflow arising on disposal:	
Total consideration received in cash	85.4
Less: cash and cash equivalents disposed of	(3.2)
Businesses disposed	82.2
Less: business disposal expenses paid	(0.1)
Total cash inflow	**82.1**

Total consideration received in respect of disposed businesses in the period was as follows:

	Total £m
In respect of businesses disposed of in the period	82.2
In respect of businesses disposed of in the prior year	1.4
Total	**83.6**

The total gain in respect of disposed businesses in the period was as follows:

	Total £m
In respect of businesses disposed of in the period	52.1
In respect of businesses disposed of in the prior year	1.1
Total	**53.2**

26. Restatement of prior period comparatives

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date. All fair value adjustments are required to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results. During the second half of 2016, the Group finalised the fair values of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively and this has resulted in a restatement of the income statement comparatives for the period to 30 June 2016. These amendments relate to the amortisation of identified intangible assets, disposal of inventory revalued on acquisition and the related tax impacts. The impact of these adjustments was to reduce previously reported statutory profit before tax by £7.6m and statutory profit for the period by £5.1m. There was no impact on any underlying profit measures (note 4).

27. Approval of interim management report

The interim management report was approved by the Board of Directors on 31 July 2017.

28. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 1 August 2017. Paper copies of the report will be available to the public from the Company's registered office at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Risks and uncertainties

The Group disclosed in its 2016 Annual Report the principal risks and uncertainties which the Group is exposed to. These risks have not changed significantly over the period and are expected to continue to be relevant for the remaining six months of the year.

The risks relate to those arising from fundamental changes in the Group's business model, reduced demand for the Group's products, not aligning technology strategies with customer requirements, quality escape/equipment fault, failure to meet new product development and programme milestones and certification requirements, business interruption, failure to meet customers' cost, quality and delivery standards, failure to integrate effectively acquisitions, IT/systems failure, supply chain management, legal and regulatory matters and changes in tax legislation. Further details can be found in the 'Risk management' section of the 2016 Annual Report on pages 28 to 33 together with details of strategies adopted to mitigate these exposures.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

- This condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union; and
- The interim management report (including the interim financial statements, management report and responsibility statements) includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:
    - An indication of important events that have occurred during the six months ended 30 June 2017 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
    - Material related party transactions in the six months ended 30 June 2017 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

S G Young
Director
31 July 2017

D R Webb
Director
31 July 2017

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